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Date: **1 MAR 78** By: **8 June 1948**
028**SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS**

The ability of the directors to foil designs of pro-Soviet elements intent on gaining control of Iranian Airways (Iranair) has been greatly reduced by: (1) withdrawal of US aviation interests from management and operation of the airline as a result of the chaotic financial condition of the company; (2) the willingness of certain stockholders to permit blocks of the near worthless Iranian stock to be sold at public auction; and (3) apparent lack of willingness on the part of the Iranian Government to take positive steps in support of Iranian civil aviation. Unless Iranair is reorganized and properly financed by interests friendly to the Western Powers, control of the airline may well fall to the USSR by default.

The US has insisted, in the current air route dispute with Peru, that recourse be confined to consultation rather than unilateral action. US acquiescence in the circumstances of Peru's cancellation of the US Braniff Airways permit would establish a dangerous precedent affecting US bilateral air agreement throughout the world.

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- 2 -

SECTION II. CURRENT DEVELOPMENTS**Possible Soviet Control of Iranian Airways**

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The efforts of two wealthy Armenians to secure control of Iranian Airways (Iranair) through gradual accumulation of voting rights through stock purchases, demand careful watching. The known pro-Soviet attitude of these individuals indicates an ultimate objective of (1) forcing a change in the present management; and (2) inviting Soviet participation in the airline.

The USSR has long desired control of Iranair. When Soviet troops were withdrawn from Iran in May 1946, Aeroflot continued to operate a Moscow-Tehran airline and also carried on commercial air operations between Meshed and Tabriz via Tehran without Iranian Government permission. In an attempt to legalize these operations, the USSR put pressure on the Iranian Government to create a joint Iranian Soviet airline with monopoly rights in the five Northern provinces. Iran not only resisted this pressure, but in July 1947, by formal representations demanding reciprocal rights from Iranian Airways in the USSR, brought about the termination of Soviet commercial air operations in Iran.

The ability of Iranair directors to foil the designs of pro-Soviet elements has been greatly reduced by: (1) withdrawal of US aviation interests from management and operation of the airline as a result of the chaotic financial condition of the company; (2) the willingness of certain stockholders to permit blocks of the near worthless Iranian stock to be sold at public auction; and (3) apparent lack of willingness on the part of the Iranian Government to take positive steps in support of Iranian civil aviation.

The USSR continues to run a wartime network of radio facilities in Iran (Tehran, Tabriz, Meshed, and Pahlevi) which provides meteorological services essential to commercial airline operations. Should the USSR gain operating control of Iranair, it would probably dominate all domestic commercial air activities and attempt to handicap the new British operated Eagle Airlines (an Iranian corporation).

Soviet control of Iran's civil aviation, moreover, would constitute a continuing threat to the US position in the Near East which is already seriously jeopardized by the existing situation in Palestine. US scheduled airlines, as well as US irregular carriers supplying the Saudi Arabian oil developments, are experiencing sharply increased difficulties

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- 3 -

in transiting the Arab League States due to the imposition of extraordinary regulations and the designation of prohibited areas. Unless Iranair is reorganized and properly financed by interests friendly to the Western Powers, control of the airline may well fall to the USSR by default.

US-Peruvian Dispute Over Air Rights

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The US program of bilateral civil aviation agreements is threatened by the Peruvian Government's summary suspension of Braniff Airways' operating permit, despite previous assurances that Braniff's operations under the US-Peruvian air agreement would not be interfered with, pending inter-governmental consultations. (TG Weekly #13, 26 May 1948.)

Peru has been aware for over two years of Braniff's intention to serve Habana, and the bilateral agreement was concluded in open and public contemplation of this service. The Peruvian permit, moreover, specifies (in wording identical with the bilateral agreement) an airline route from the US to Peru "via intermediate points". Peru now maintains that service to Habana is not authorized for Braniff. (Braniff would be in direct competition with Peruvian International Airways between Habana and Peru.) Peru contends that its action is in accordance with the strict letter of the bilateral agreement, which provides for the revocation by either government of permits granted to airlines of the other country in the event of non-compliance with the terms of such permits.

Many US bilateral agreements with other countries employ the phrase "via intermediate points". Thus, if the Peruvian ban on stops at a specific intermediate point is not challenged, a precedent would be established threatening US air rights throughout the world obtained on the basis of such wording. The US, therefore, has taken a firm position, stating that the question involves the interpretation of the agreement and that Peruvian recourse should be to consultation rather than unilateral action. The Peruvian Government, accordingly, has been requested to permit Braniff to operate to Lima via Habana in the interim pending consultation.

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- 4 -

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The applications of Austria and Finland for membership in the International Civil Aviation Organization (ICAO) have been approved by the ICAO Council and the Executive Committee of the General Assembly. It is probable that Finland and Austria will be granted membership during the current meeting of the Assembly at Geneva.

The agenda of the Central Rhine Commission, which meets at Strasbourg 30 June, includes discussion of: (1) some system to reduce present currency difficulties in payment for services rendered to Rhenish craft in Germany in order to expedite the flow of international traffic on the Rhine; and (2) uniform inspection regulations. France, Switzerland, and Belgium established such regulations effective 1 April 1948 and similar action on the part of Bizonia authorities and the Netherlands would be of considerable value in reducing the time lost through inspection, thus expediting the movement of river barges and other craft across international boundaries.

While considerable study has been devoted to the foregoing and other problems, it is not likely that definitive solutions will be evolved at this meeting, but at least there is evidence of a willingness to work toward restoration of the prewar freedom of traffic upon this most important of all European inland waterways.

Poland has revised its former attitude regarding water traffic with Bizonia and is now willing to permit vessels of Western Germany to call at Polish ports. During recent months, Poland, hostile toward granting reciprocity in maritime traffic between the two areas, threatened denial of Polish ports to Bizone vessels. It is probable that the new Polish attitude reflects a desire to dispose of its raw materials, particularly coal, to the West in order to acquire the necessary foreign exchange to purchase badly needed finished products.

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